Car shopping (and the reality of finances)

These are the questions I want you to be able to answer by the end of this project.

**Why** do most financial experts advise consumers to take car loans of 4 years or less?

**Why** do people take out loans for longer than 5 years and what can happen?

About what % of a car's value should you put down and **why**?

At my first job, I brought home approximately $23,000. Suppose my typical month of bills was $900, what advice would you give me if I wanted to buy a new car?

1. Read [http://www.bankrate.com/finance/auto/the-price-of-long-auto-loans.aspx](http://www.bankrate.com/finance/auto/the-price-of-long-auto-loans.aspx" \t "_blank). What does it mean to be "upside down" in a loan?

2. Find a new car and use [http://www.money-zine.com/Calculators/Auto-Loan-Calculators/Car-Depreciation-Calculator/](http://www.money-zine.com/Calculators/Auto-Loan-Calculators/Car-Depreciation-Calculator/" \t "_blank) to figure out what value of car will be in 2 years. (I think we underestimated using 15% in class.) [Remember that you put in 0 for current age.]

3. Go to loan amortization sheet.

<http://download.cnet.com/3001-2077_4-75560687.html?spi=1348355818f0c222573880b9fda9a4aa>

Use 5.25% as the APR and 1/1/12 as the start date.

Compare total payment of loans for 3, 4, 5, 6, and 7 years. What happens to the total amount you have to pay? Why?

**4. Compare your car value at 2 years to each of these loan values. What do you notice?**

5. Read [http://www.lendingtree.com/auto-loans/advice/buying-a-new-car/how-much-to-put-down-on-a-car/](http://www.lendingtree.com/auto-loans/advice/buying-a-new-car/how-much-to-put-down-on-a-car/" \t "_blank).

Now go back to the loan amortization sheet and put $5,000 down in the first payment. Now what do you notice? According to this article, can you be "upside down" in a loan even if you take out a 3-year loan?